



Los Angeles County
Board of Supervisors

Hilda L. Solis
First District

Mark Ridley-Thomas
Second District

Sheila Kuehl
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

Mitchell H. Katz, M.D.
Director

Hal F. Yee, Jr., M.D., Ph.D.
Chief Medical Officer

313 N. Figueroa Street, Suite 912
Los Angeles, CA 90012

Tel: (213) 240-8101
Fax: (213) 481-0503

www.dhs.lacounty.gov

*To ensure access to high-quality,
patient-centered, cost-effective
health care to Los Angeles
County residents through direct
services at DHS facilities and
through collaboration with
community and
university partners.*



www.dhs.lacounty.gov

September 28, 2015

TO: Mayor Michael D. Antonovich
Supervisor Hilda Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **ADVANCE NOTIFICATION OF INTENT TO EXTEND
SOLE SOURCE AGREEMENT NO. H-704447 WITH
GLOBAL HEALTHCARE EXCHANGE LLC**

This is to advise the Board that in two months' time, the Department of Health Services (DHS or Department) intends to return to the Board to request approval of an extension to the existing Sole Source Agreement No. H-704447 (Agreement) with Global Healthcare Exchange LLC (GHX) for the ongoing provision of software and services to support DHS' Group Purchasing Organization (GPO) supply chain initiatives. Board Policy No. 5.100 requires written notice of a department's intent to enter into sole source negotiations for extension of a Board-approved Agreement at least six months prior to the Agreement's expiration date. DHS will exhaust its delegation of authority to extend the Agreement on December 31, 2015.

However, because the Board adopted the revised policy on August 4, 2015, the Department is unable to meet the policy's notification timeframe for this particular extension. In order to ensure no break in services, DHS has begun preliminary discussions with GHX regarding the Agreement extension.

Under the current Agreement, GHX has implemented its proprietary supply chain procurement and data management software and services for the DHS enterprise, including the interfacing of GHX Procurement Suite with the County's electronic Countywide Accounting and Purchasing System (eCAPS) eProcurement and eInventory systems. GHX has also facilitated the Department's migration from the Hospital Material Management System (HMMS), a legacy system first developed in the 1970s, to eCAPS.

Background

GHX is a business exchange consisting of healthcare providers and healthcare product vendors. GHX's core members include members of the University HealthSystem Consortium (UHC) , one of which is DHS. GHX provides health care supply chain automation solutions that maintain updated procurement data on medical supplies, assist members with developing and maintaining a standardized and efficient supply formulary for medical supplies, ensure controls for compliance with these formularies, reconcile and cleanse purchasing data for consistency and completeness, and host established vendor agreements and pricing to automate the reconciliation of purchases to the GPO contract catalog.

On November 18, 1997, the Board authorized DHS to join UHC, a nonprofit member alliance of approximately 120 academic health centers, and its GPO. Through its UHC membership, DHS can access UHC agreements as an alternative to conducting County solicitations. UHC selected GHX as its vendor for supply chain management services through UHC's competitive bid process. Furthermore, as a UHC member, the Department benefits from economies of scale realized from group discounts for all medical supplies covered under UHC-established vendor contracts.

The Board approved the current Agreement with GHX on September 21, 2010 for the provision of supply chain procurement and data management software and services. On July 30, 2013, the Board approved Amendment No. 3 to expand the Agreement's statement of work for additional services and to increase the Agreement sum by \$309,000 for a total maximum agreement sum of \$2,243,815. GHX provides several proprietary solutions to DHS under the Agreement, including the requisitioning module (Procurement Suite), data cleansing module (NuVia), purchasing contract management module (Contract Center) and its business exchange module to electronically send purchase orders (POs) and receive PO status (MyExchange).

The Agreement's costs are entirely offset by Patron Equity Credits (PECs). Whenever the Department purchases commodities through its UHC membership, it accrues PECs which can be utilized to purchase additional services from UHC and GHX. Some of these additional services include UHC's patient safety system (Safety Intelligence) and GHX's software solutions (Procurement Suite, NuVia, Contract Center, and MyExchange).

Justification

DHS is recommending an extension to the Agreement because GHX is the only company that focuses on healthcare supply chain data management in the United States. GHX is also the only company to be integrated with UHC's GPO, Novation. GHX receives a daily feed from Novation of contracted pricing unique to each member and matches the price to the products purchased through the exchange. This validation ensures that Novation contract pricing is honored during the procurement process. Also, the GHX-eCAPS interface pre-populates eCAPS with 95% of the data fields required to process a PO, which decreases processing times significantly. By extending its contract with GHX, DHS will maintain its existing cost savings, continue to leverage its purchasing power, and effectively manage the supply chain.

The Department has also devoted significant resources to interface eCAPS with GHX to ensure the Department's compliance with County purchasing standards, while enabling DHS to remain aligned with the healthcare industry's standard practices and requirements. Furthermore, DHS recently collaborated with the Internal Services Department (ISD) to develop the Department's first Item Master System and with the Board approval of Amendment No. 3 devoted significant resources to GHX to develop an interface between the DHS Item Master System and GHX NuVia.

The extension of the Agreement with GHX will enable the Department to:

- Maximize automation of DHS supply chain processes by capitalizing the use of electronic transactions and reduction of redundant and manual labor-intensive interventions;
- Streamline the Department's high volume processing of invoices and POs;
- Ensure compliance by implementing controls and standards, including item and pricing controls, item categorization and standardization, and the improved monitoring of related purchasing and payments;
- Manage an updated supply formulary and vendor contracts for DHS commodities;
- Access the Department's purchasing history and necessary data to make informed data-driven decisions in supply chain management; and
- Provide DHS with the necessary software to develop a standardized supply formulary across all DHS facilities.

The proposed extension to the Agreement meets the following sole source criteria:

- Additional services are needed to complete an ongoing task and it would be prohibitively costly in time and money to seek a new service provider.
- GHX is the only service provider that is fully integrated with UHC's GPO, Novation, through which DHS is able to realize regular cost savings on Departmental purchase of commodities.

DHS has spent five years implementing eProcurement (i.e., GHX software modules and County eCAPS eProcurement and eInventory modules) throughout its facilities. It has completed implementation at Olive View-UCLA Medical Center, High Desert Regional Health Center and Health Services Administration. Nearly 1,100 users actively use eProcurement at these three facilities. Martin Luther King, Jr. Health Center is scheduled to go live in the first half of 2016, Harbor-UCLA Medical Center in the second half of 2016, and Rancho Los Amigos National Rehabilitation Center and LAC+USC Medical Center in 2017.

If this Agreement is not extended, DHS will lose access to software and services that are essential to purchasing medical commodities. The resulting loss of gained efficiencies will require massive manual intervention by DHS employees. It would hamper efforts to provide patient care, as the implemented facilities would be forced to revert to paper-based requisitions which would create internal backlogs. Moreover, DHS would be unable to complete the eProcurement implementation project. DHS will also be required to select

and engage a new vendor to develop an interface with eCAPS, as well as both a new interface between the DHS Item Master on the requisitioning solution and a new interface for vendors. DHS currently conducts business with vendors via electronic data interchange (EDI), using the GHX Business Exchange (MyExchange).

Moreover, DHS and ISD have worked together to develop several systems that all revolve around custom-developed interfaces with GHX, including a Procurement Item Master System, Inventory Replenishment System and Low Unit of Measure Information Systems. As such, it would be prohibitively costly in time and money to select and engage a new contractor to complete the eProcurement implementation throughout the DHS enterprise. In order to meet the County's unique purchasing requirements, DHS has made many ongoing software enhancements and interface modifications to integrate GHX and eCAPS.

DHS will continue to proceed with the sole source negotiations on the agreement extension with GHX within two weeks from the date of this memo unless the Department is instructed otherwise by the Board.

If you have any questions, please let me know.

MHK:jl

c: Chief Executive Office
Executive Office, Board of Supervisors
County Counsel
Chief Information Office

REVIEWED BY:

 

Richard Sanchez
Chief Information Officer



Date